



# **2019 Business Forecast**

## **Board of Directors Meeting**

**September 9, 2019**

# Agenda



- 
- **Current Financial Picture**
  - **Background**
  - **Executive Summary**
  - **Generation & Transmission Resource Plan**
  - **Organizational & Cost Reform**
  - **Broad Mission, Unique Contributions & Other Obligations**
  - **Relationship with Central**
  - **Long Term Financial Forecast & Customer Rates**
  - **Conclusion**

# **CURRENT FINANCIAL PICTURE**

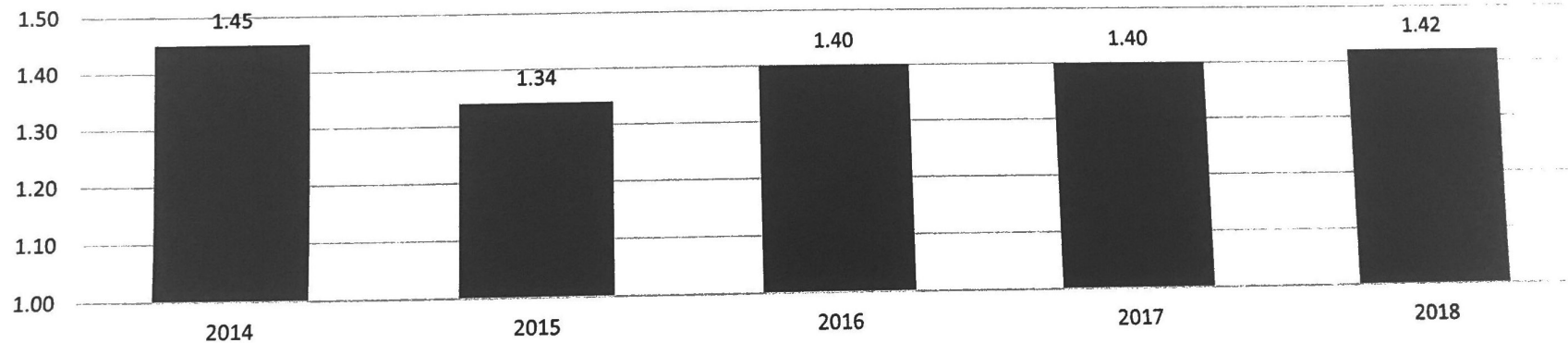
# Debt Service Coverage



## 2019 Projected Debt Service Coverage (\$ in millions)<sup>1</sup>

Revenues	\$1,741
<u>Operating Expenses</u>	<u>(\$1,127)</u>
<b>Available for Debt Service</b>	<b>\$613</b>
Total Debt Service	<u>(\$447)</u>
<b>Funds Available After Debt Service</b>	<b>\$166</b>

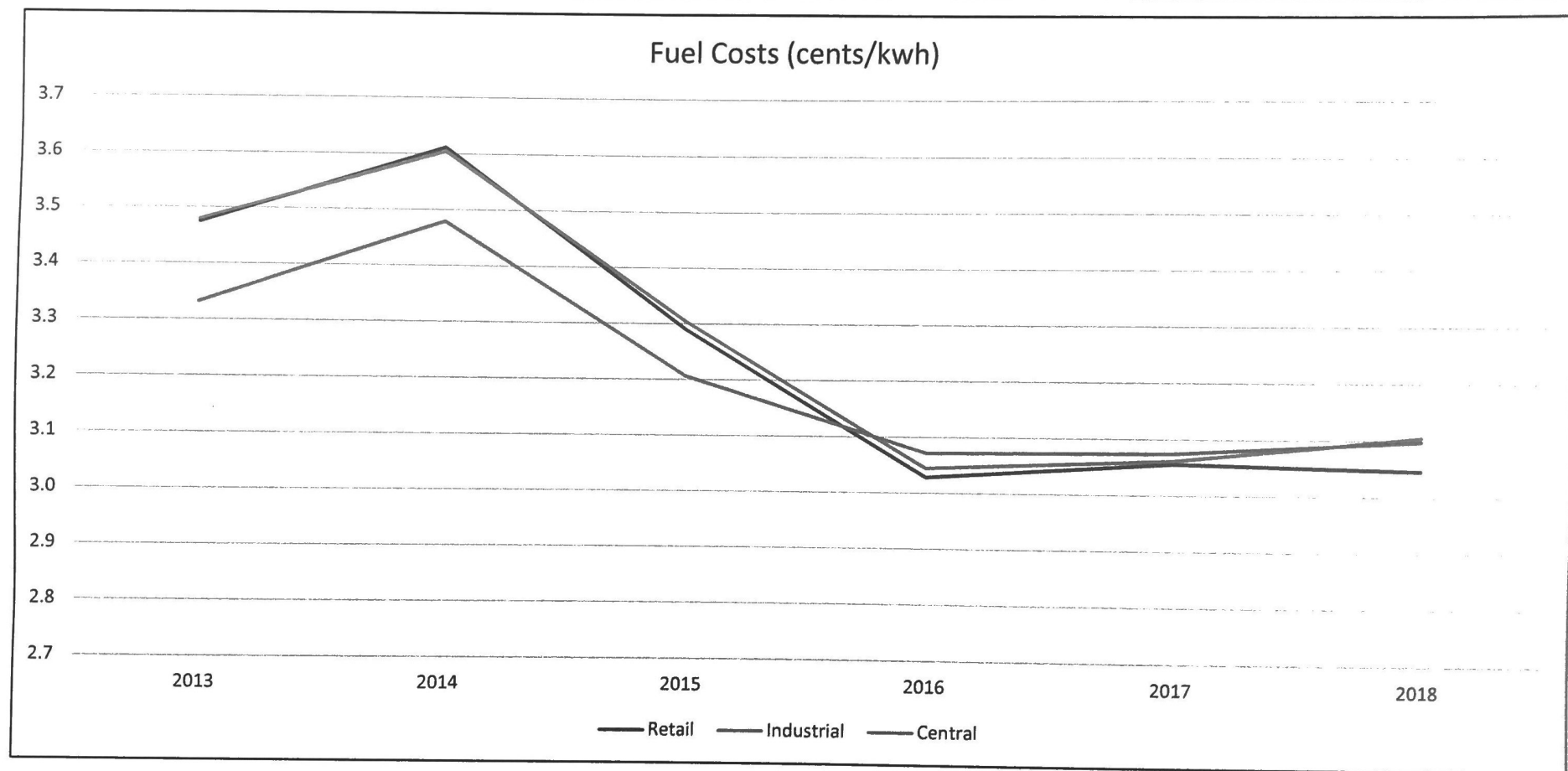
## Historical Debt Service Coverage<sup>2</sup>



1. Includes commercial paper. Based on actuals through July 2019 and budget projections for the balance of the year.
2. After payment to state and includes CP. Internal calculation using Santee Cooper's methodology.



# Declining Fuel Prices



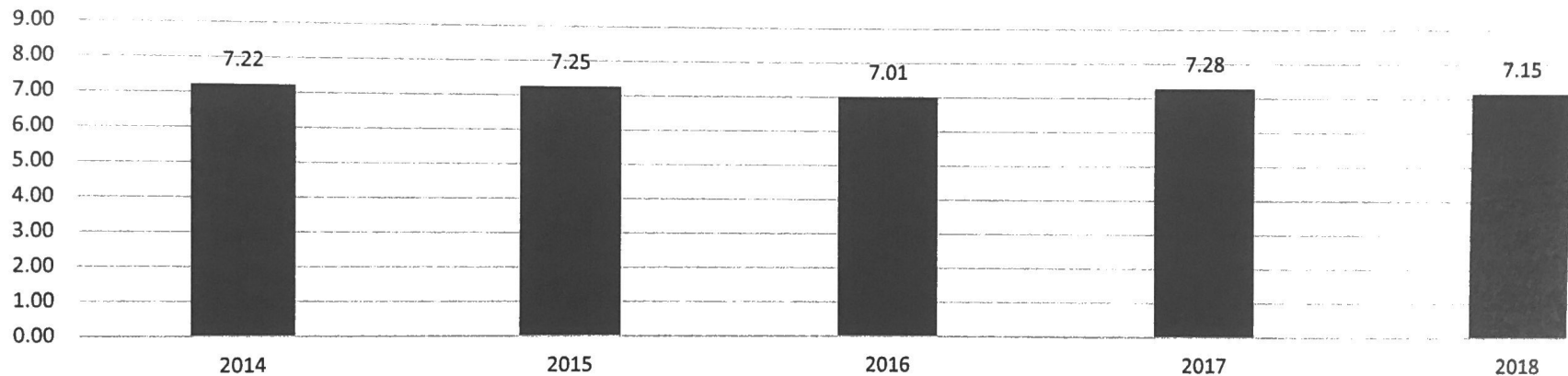
Since 2014	Retail	Industrial	Central
Fuel Prices	-16%	-14%	-11%
Bill Impact	-4.6% Incremental	-6.9% Incremental	-5.3% Incremental

# Prices to Customers are Stable

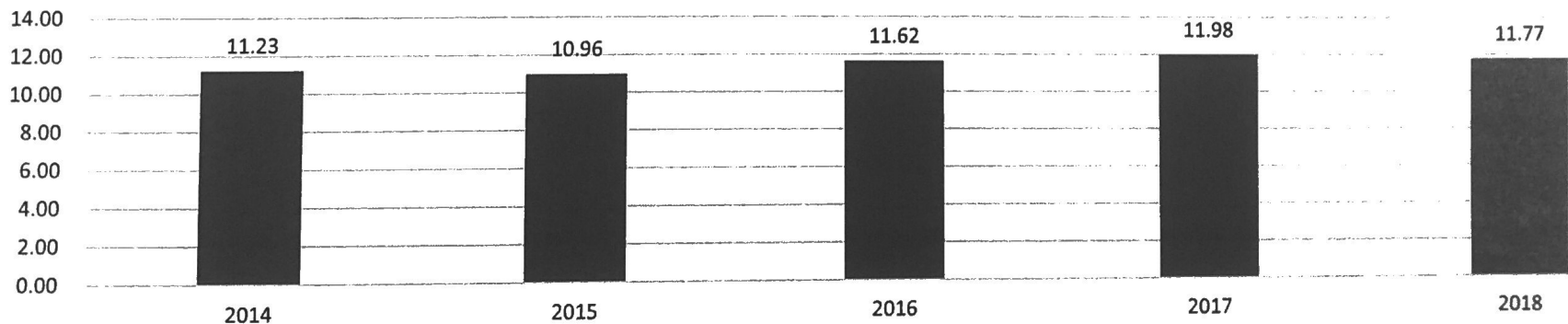


Real prices to customers have declined from 2014 to 2018 when compared to inflation<sup>1</sup>

Prices to Central Electric Cooperative (Cents/kwh)<sup>2</sup>



Prices to Residential (Cents/kwh)<sup>3</sup>



1. Based on the Consumer Price Index (CPI) average of months. Growth rates over period: Central -1%, Residential 4.8%, CPI 7.5%
2. Values from Central Cost of Service
3. Values from Financial Statements

# Bill Comparison



Average Monthly Bill, typical\* residential customer

– Santee Cooper	\$117.63
– Duke Energy Carolinas	\$122.45
– Duke Energy Progress	\$130.55
– Dominion/SCEG	\$125.35

- *\*1000 kWh/Month*
- *Source: SC Office of Regulatory Staff*
- *Estimate prepared in June 2019*

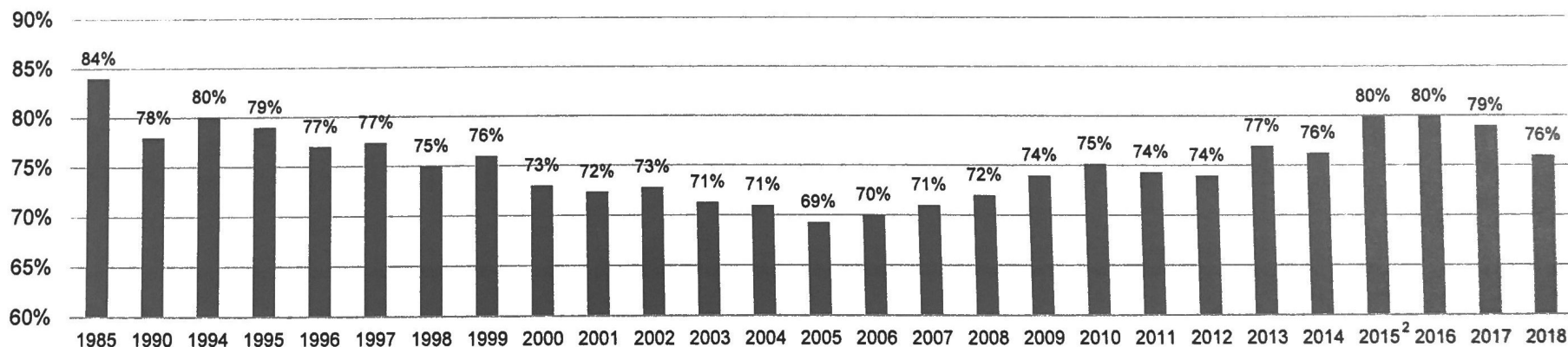
# Debt Equity Ratio



## 2019 Projected Debt Equity Ratio (\$ in millions)

Total Debt Net	\$6,825
Total Equity Net	\$2,096
<b>Total Debt &amp; Equity Including CP &amp; Short Term RCA</b>	<b>\$8,921</b>
Debt	77%
Equity	23%

## Debt / Capitalization<sup>1</sup>



1. Includes Commercial paper and Revolving Credit Agreements. Funds Available for Debt Service exclude Distributions to the State.

2. In 2015, Santee Cooper recorded a liability of approximately \$270 million as a result of GASB 68.

**To be the state's leading  
resource for improving the  
quality of life for all  
South Carolinians.**

**Challenge: Respecting the mission while charting  
a new path forward.**

# Background



- Santee Cooper regularly reviews its loads and resources, financing plans, and other business assumptions to produce business forecasts.
- The 2019 Business Forecast includes substantial changes to the existing resource mix and financing plan<sup>1</sup>.
  - We are requesting Board approval of the overall strategy set out in the Business Forecast.
  - Many elements of this new Business Forecast will require specific Board approval before implementation.
- The 2019 Business Forecast will be used to produce Company budgets and will be the base case for the Department of Administration's H4287 process.
  - DOA will provide this base case to all prospective bidders.

<sup>1</sup>. Contains load assumptions confirmed by Central

# Executive Summary



- The Santee Cooper 2019 Business Forecast is designed to transform the Company into an innovative customer-centric 21st century utility that will continue to provide affordable, reliable service while driving economic growth in South Carolina.
- Comprehensive plan includes the following key elements:
  - Transforming the generation fleet
    - Reduces cost
    - Preserves reliability
    - Increases environmental stewardship (less coal, more solar)
    - Improves resource diversity
    - Ensures the ability to adapt to a wide range of future conditions
  - Committing over \$925MM to nuclear debt payoff in the near-term and refinancing other debt to reduce interest expense
  - Continuing to streamline the organization to reduce costs
  - Entering into strategic alliances with neighboring utilities, where possible, to jointly explore ways to drive operating efficiencies
- Execution of the 2019 Business Forecast will allow Santee Cooper to maintain current system prices (which are competitive with neighboring utilities) for at least five years.
- The old “7%” number is gone.

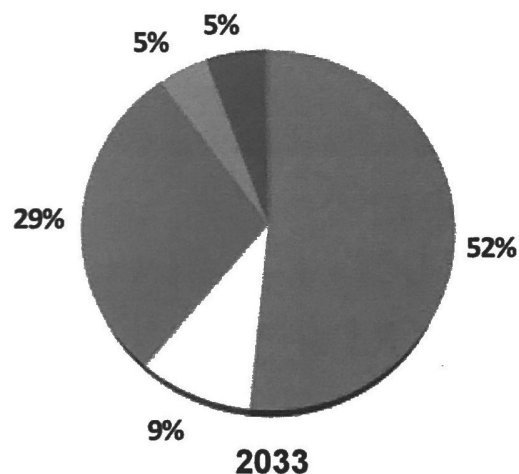
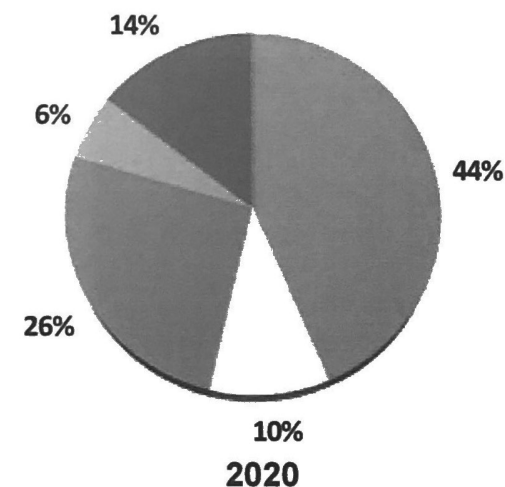
# **GENERATION & TRANSMISSION RESOURCE PLAN**



# Old Loads & Resources<sup>1</sup>



## Energy Mix



- Coal
- Existing Gas
- New Gas
- Nuclear
- Sustainable Res.
- Economy Purchases

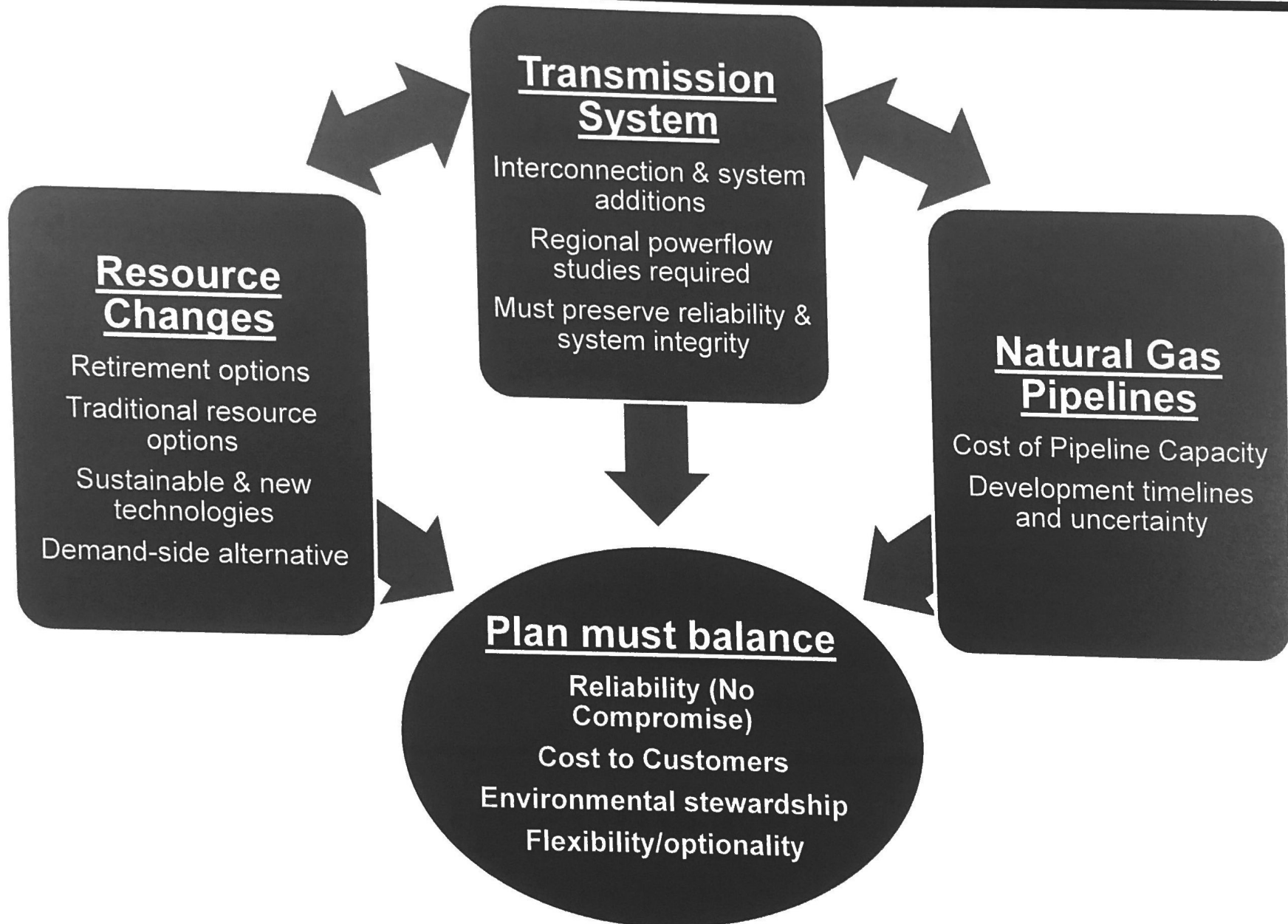
## Capacity Mix

Resource Type	Existing
Coal	60%
Nuclear	6%
Natural Gas	23%
Sustainable Resources	11%

***The ICF BAU case has excess reserves for over a decade.***

<sup>1</sup> Financial Forecast used in ICF BAU Case

# Developing the Plan



# New L&R Changes



1. A deliberate meaningful reduction in coal
  - a) Winyah 3&4 in 2023
  - b) Winyah 1&2 in 2027
  - c) 1100-1200 MW need in late 2030's met by Cross 1&2 or another source
2. Add sustainable resources
  - a) Solar – 1000 MW by 2024
  - b) Battery storage – 200 MW phased in 2024-2028
  - c) Demand-side programs working with Central
    - i. 150 MW phased in 2020-2027
    - ii. 50 MW phased in 2028-2037

# New L&R Changes

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## 3. Ensure short-term reliability

- a) Dual-fuel aeroderivative turbine
  - i. 100 MW in 2023 (in Horry-Georgetown Area)
- b) Winter capacity purchase
  - i. 30 MW in 2023

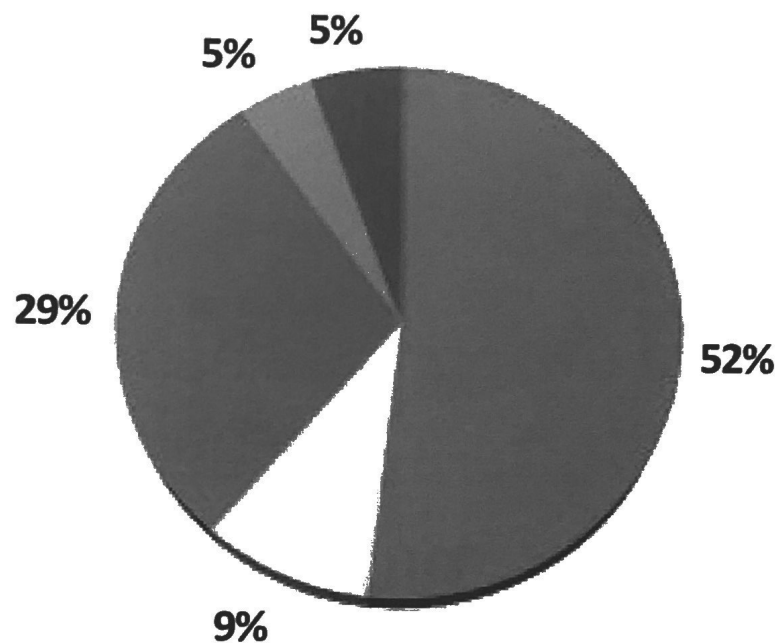
## 4. Add natural gas

- a) 500 MW need in 2027 when Winyah is fully retired
- b) Another 500-600 MW in early 2030's
- c) Develop plans to meet this need through alliances, market or existing plant purchases and/or new construction

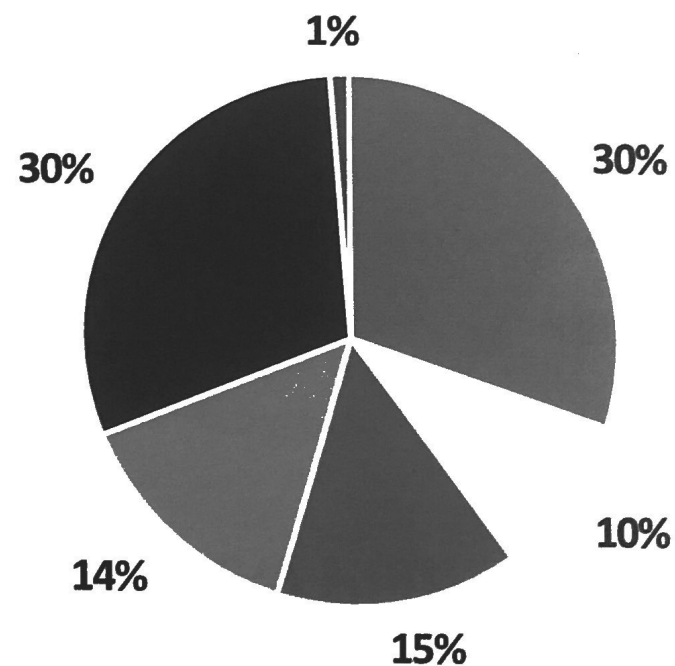
## 5. Increase certainty of market purchases of energy and possibly extend natural gas hedges

## 2033 Energy Mix

**Old**



**New Plan**

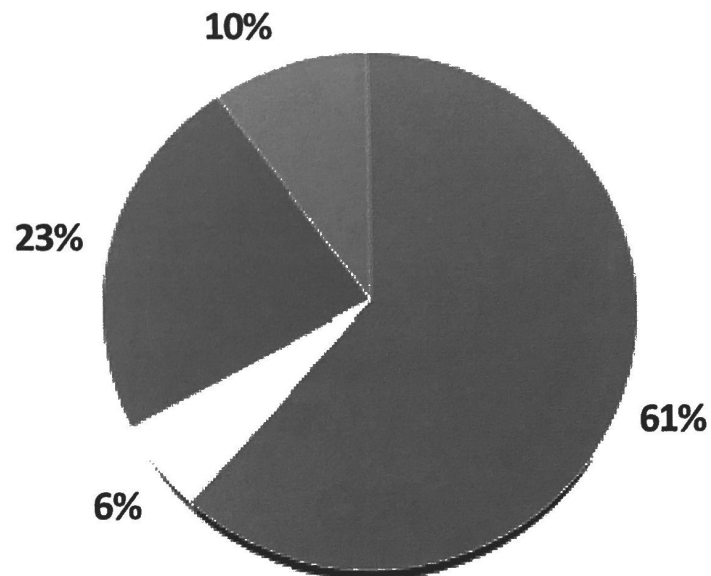


■ Coal  
■ Existing Gas  
■ New Gas

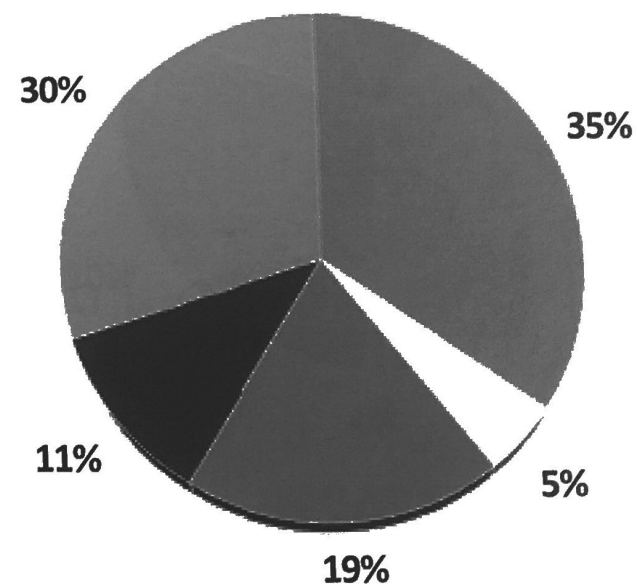
■ Nuclear  
■ Sustainable Res.  
■ Economy Purchases

## 2033 Installed Capacity Mix

Old



New Plan



- |                |                     |
|----------------|---------------------|
| ■ Coal         | ■ Nuclear           |
| ■ Existing Gas | ■ Sustainable Res.  |
| ■ New Gas      | ■ Economy Purchases |

# Projected Cost Reduction

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- As a result of the new L&R Path, cost reductions compared to the BAU scenario case used by ICF are approximately:
  - 2023-2027: \$90-120M per year
  - 2028-2040: \$170M per year
- These savings are incorporated into the financial projections.
- We will work to increase savings through strategic alliances with neighboring utilities where possible.

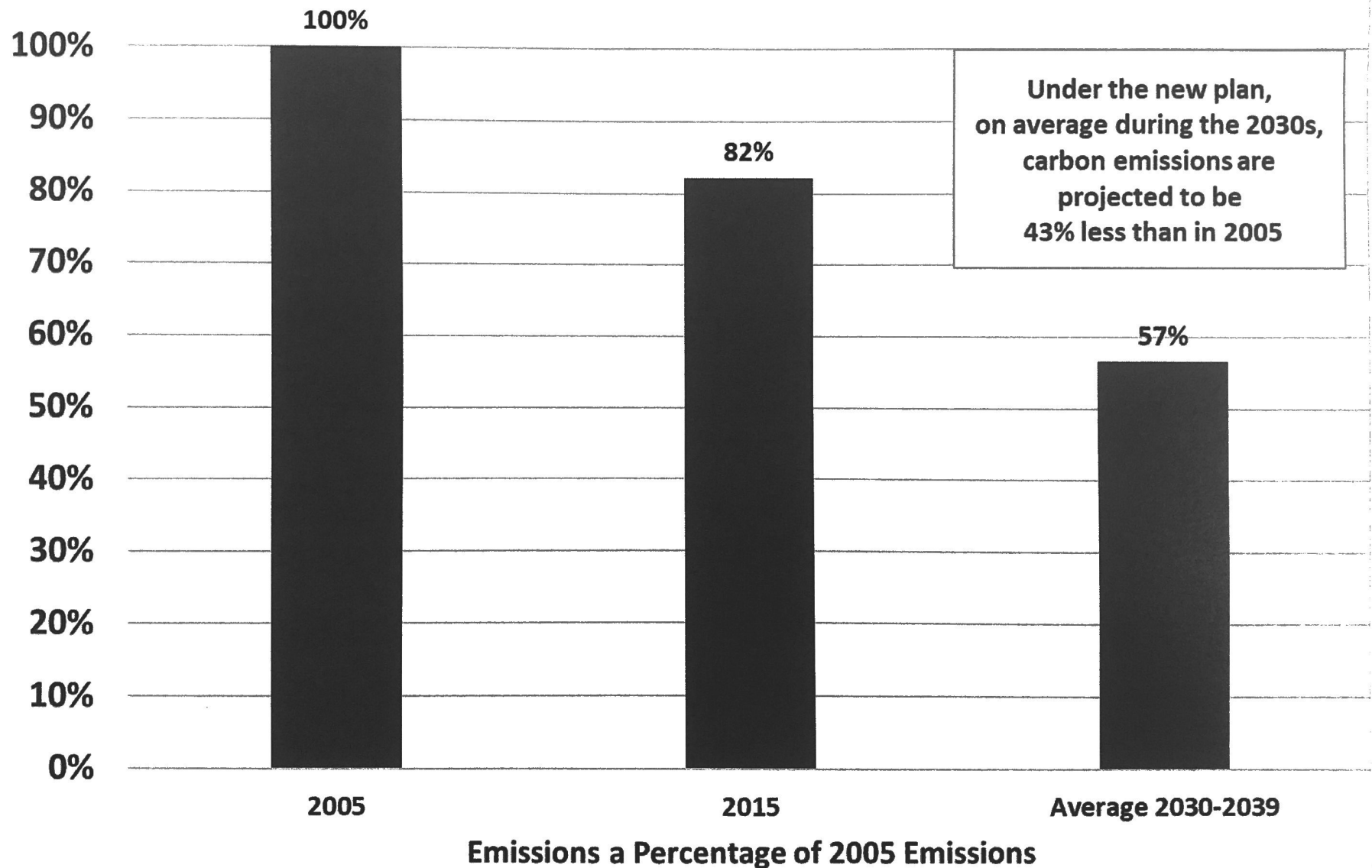
# Flexibility/Optionality to Changing Conditions



Potential Changes in Conditions	Retire Cross 1 & 2	Retire Cross 3 & 4	Source of Natural Gas for New NGCCs	Change use of Resources	Change Schedule of Resource Additions	Capacity Purchases from Others
Carbon Tax Imposed	✓	✓		More solar/storage		
Higher Customer Demand					Advance/ Increase Resources and DSM	Solicit Capacity Purchases
Lower Customer Demand	✓				Delay New Resources	
ACP Cancelled or Indefinitely Delayed			Supply from Transco			
Lower Prices for Economy Energy from Adjacent Systems				Reduce use of coal units		Increase Energy Purchases
Very High NG Prices				Reduce NG / Increase Coal when economic/Add solar/storage		



# Reduction in Carbon Emissions under new L&R Path



# Santee Cooper's New L&R Path santee cooper®

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- A deliberate meaningful reduction in coal
  - Lowering carbon emissions
- Increases sustainable resources & new technology
  - Solar
  - Batteries
  - Demand-side options
- Preserves reliability and power system integrity
  - Regional power flow analysis
- Reduces costs to customers
- Is flexible and adaptable
- More aligned with other utilities

# **ORGANIZATIONAL & COST REFORM**

# Organizational Benchmarking santee cooper®

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- Santee Cooper works with independent third-party consulting groups to evaluate organizational structure and operating practices.
- In 2018, an evaluation concluded Santee Cooper's core operations are "quite strong" and its staffing levels are generally appropriate and align with comparable utilities.
- An evaluation is currently underway reviewing corporate procurement policies and coal-fired maintenance procedures for potential cost savings and efficiencies.
- Evaluations are also underway regarding job titling conventions and span of control in order to flatten the organization.

# Reduce Headcount 10%



- Santee Cooper has reduced staffing levels since 2017 and will maintain this reduced level for the foreseeable future:
  - 2017 budgeted headcount: 1,863 positions
  - 2020 budgeted headcount: 1,675 positions (close to actual staffing level, represents a 10% budget reduction)
  - Lock in approximately \$18M in annual reduced payroll and 10% reduced headcount compared to 2017
  - Additional reductions could result from changes in the resource plan, additional studies, and/or operational alliances with other utilities, where possible.

# Strategic Alliances



- Santee Cooper is seeking opportunities for strategic alliances with other utilities, where possible, to provide economic benefits and increased efficiencies through coordinated operations and joint planning efforts.
- These alliances could include:
  - Coordinated planning and potential construction / acquisition of future infrastructure needed for generation and natural gas transportation capacity
  - Coordinated management of volume buying opportunities
  - Optimization of existing generation dispatch
  - Partnerships regarding coal combustion product commitments
  - Acceleration of Advanced Metering Infrastructure (AMI)
  - Grid Modernization

# Employee Ideas



- In 2019, Santee Cooper engaged employees in brainstorming sessions for ideas that would:
  - Reduce costs
  - Increase revenue
  - Add value to customers and the state
- Over 1,000 ideas
- Priority ideas being considered (many of which track with elements of Business Forecast)
  - More solar
  - Communication / broadband opportunities
  - Efficiency partnerships / bulk purchases
  - Additional water systems (future)
- Team in place to prioritize and pursue ideas

- AMI requires smart meter with two-way communication capability
  - Helps customers manage energy use and save money with real-time information about consumption and price
  - Helps utility provide better customer service and save money through faster power restoration and automated meter reading
- Santee Cooper has 30,000 meters currently deployed in retail territory
- Effort underway to accelerate rollout to all retail customers by 2021 (was previously 2024)



# **BROAD MISSION, UNIQUE CONTRIBUTIONS AND OTHER OBLIGATIONS**

# Fulfilling the Broad Mission santee cooper®

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- As a state-owned entity with an extensive operating asset footprint, a broad mission and no profit motive, Santee Cooper has a diverse range of stakeholders that it has been engaging with for decades.
- The 2019 Business Forecast assumes Santee Cooper will continue to provide existing programs and services, drive economic development, and cover existing obligations.

# Unique Contributions



- **Economic Development Programs**
  - Over \$8 million in available grants
  - Low interest loan program
  - Commerce park development
- **Management of Lake Marion and Lake Moultrie**
  - Water Quality
  - Fisheries
  - Recreational Opportunities
  - Maintenance of an extensive dam and dike system
  - Navigation
- **Environmental Stewardship**
  - Customer Energy Conservation Programs
  - Beneficial use and Recycling
  - Wildlife Management Areas
- **Educational Programs for Students and Teachers**
- **Operation of Regional Water Systems**

# Other Obligations

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- Employee & Retiree Pensions and other Benefits
- CCP Beneficial Use Contracts
- Fuel Contracts and Supplies
- FERC License Renewal
- Nuclear and other Decommissioning Costs

# RELATIONSHIP WITH CENTRAL

# Central Agreement



- We believe the changes proposed in our Business Forecast will yield long-term benefits to Central and its members.
- We intend to engage Central on the proposed changes at the appropriate time as permitted by the Department of Administration process.
- For the purposes of the plan presented here, we have assumed we will continue to serve the Central Cooperative load, which was confirmed by Central on August 7, 2019 and included in the Business Forecast.
- We assume Central will agree to the proposed changes and not exercise an “Opt Out” or look to otherwise materially alter the projected load or terms of the Central Agreement.

# **LONG TERM FINANCIAL FORECAST & CUSTOMER RATES**

# Financial Forecast - Goals



➤ **Summer 2&3 Debt Reduction.** Initiate an accelerated debt reduction program to reduce amount and life of nuclear debt

➤ **Debt Opportunities.** (i) Execute refunding of currently callable debt to reduce costs, (ii) Identify and estimate future savings opportunities, (iii) Explore benefits and hurdles to securitization of nuclear debt

➤ **Customer Rates.** (i) Stabilize or lower prices for all customers for an additional five years, (ii) Freeze retail base rates until 2024 (seven years of no base rate increases), (iii) Target future price increases not to exceed inflation rate over time (no real price increase to customers)

➤ **Financial Metrics.** Ensure continued financial health of Santee Cooper and target metrics that support an A category credit rating



# Nuclear Debt Reduction

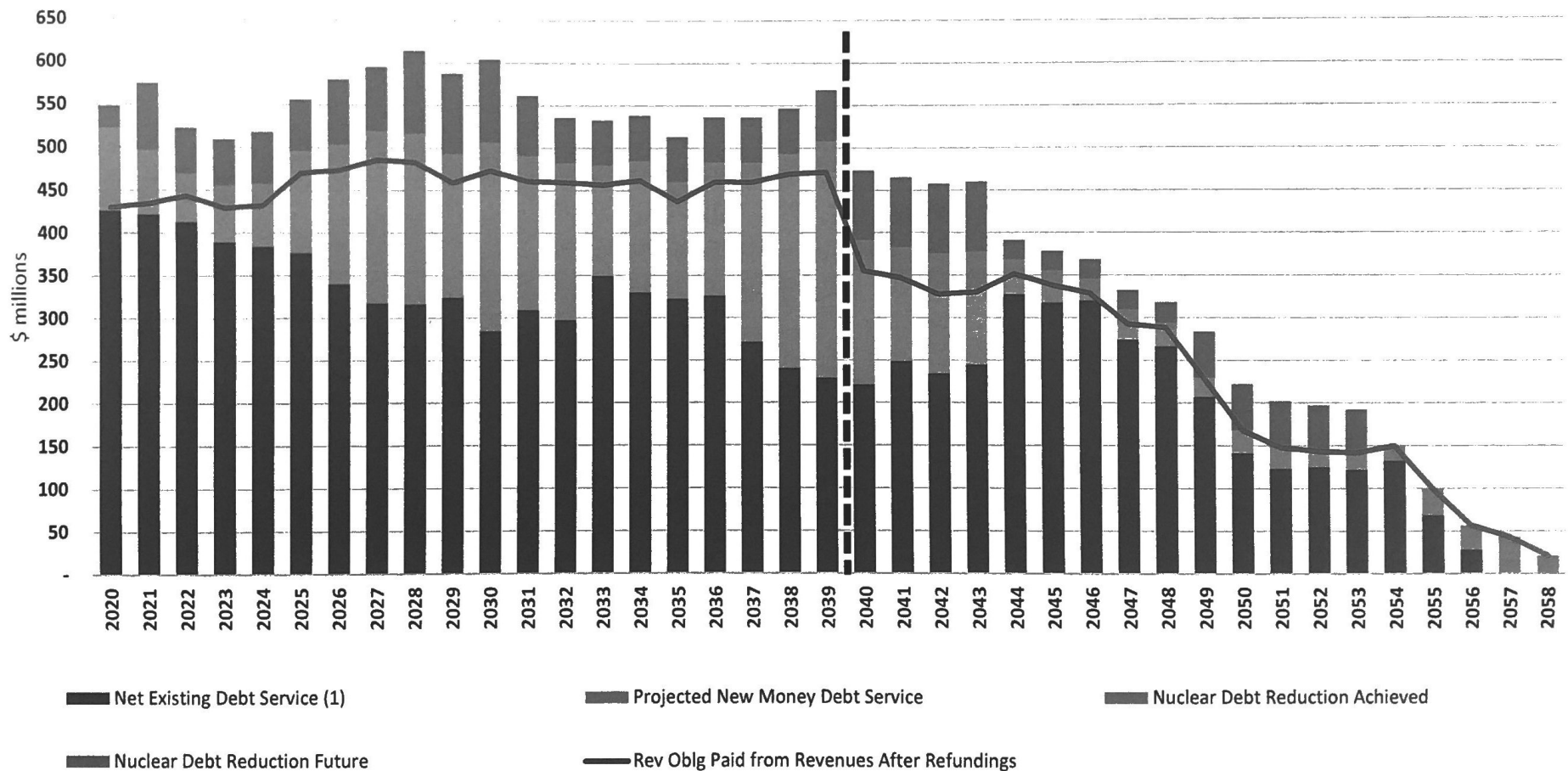


## Projected Nuclear Debt Reduction

Time	Description	Amount
To-Date (July 2018-July 2019)	Portion of settlement funds used for long-term debt reduction	\$430 million
Q4' 2019	Internal funds including remaining settlement funds, debt reduction fund, Revenue and CIF funds.	\$350 million
2020	Internally generated funds from operations and coal pile optimization	\$150 million
2020-2021	Assumed proceeds from sale of nuclear equipment	\$425 million

# Nuclear Debt Reduction Program santee cooper®

## Revenue Obligations Debt Service



1. Includes impact of projected refunding savings.

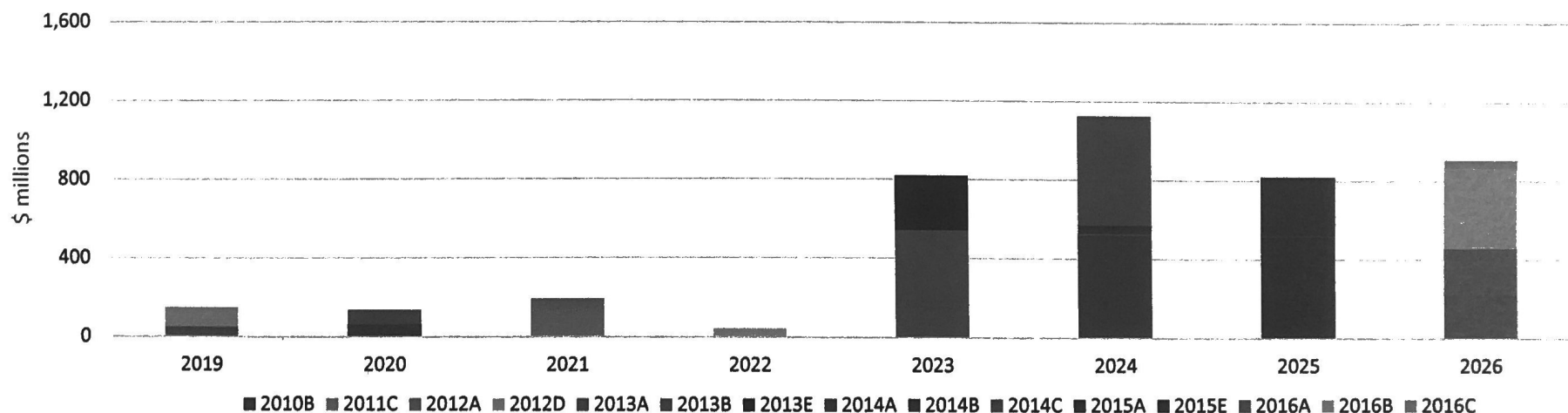
# Debt Opportunities



## Financing Opportunities<sup>1</sup>

- Concurrent with nuclear debt pay-down in 2019, Santee Cooper plans to redeem and refinance remaining mini bonds
  - At prevailing rates \$175 million mini-bonds would provide an estimated \$11 million present value savings
- Existing debt includes \$4.2 billion callable tax-exempt debt that could provide significant debt service savings (approximately \$1 billion projected PV savings)
- Securitization of debt related to nuclear project would benefit customers in the form of lower base rates<sup>2</sup>

## Callable Tax-Exempt Debt<sup>3</sup>

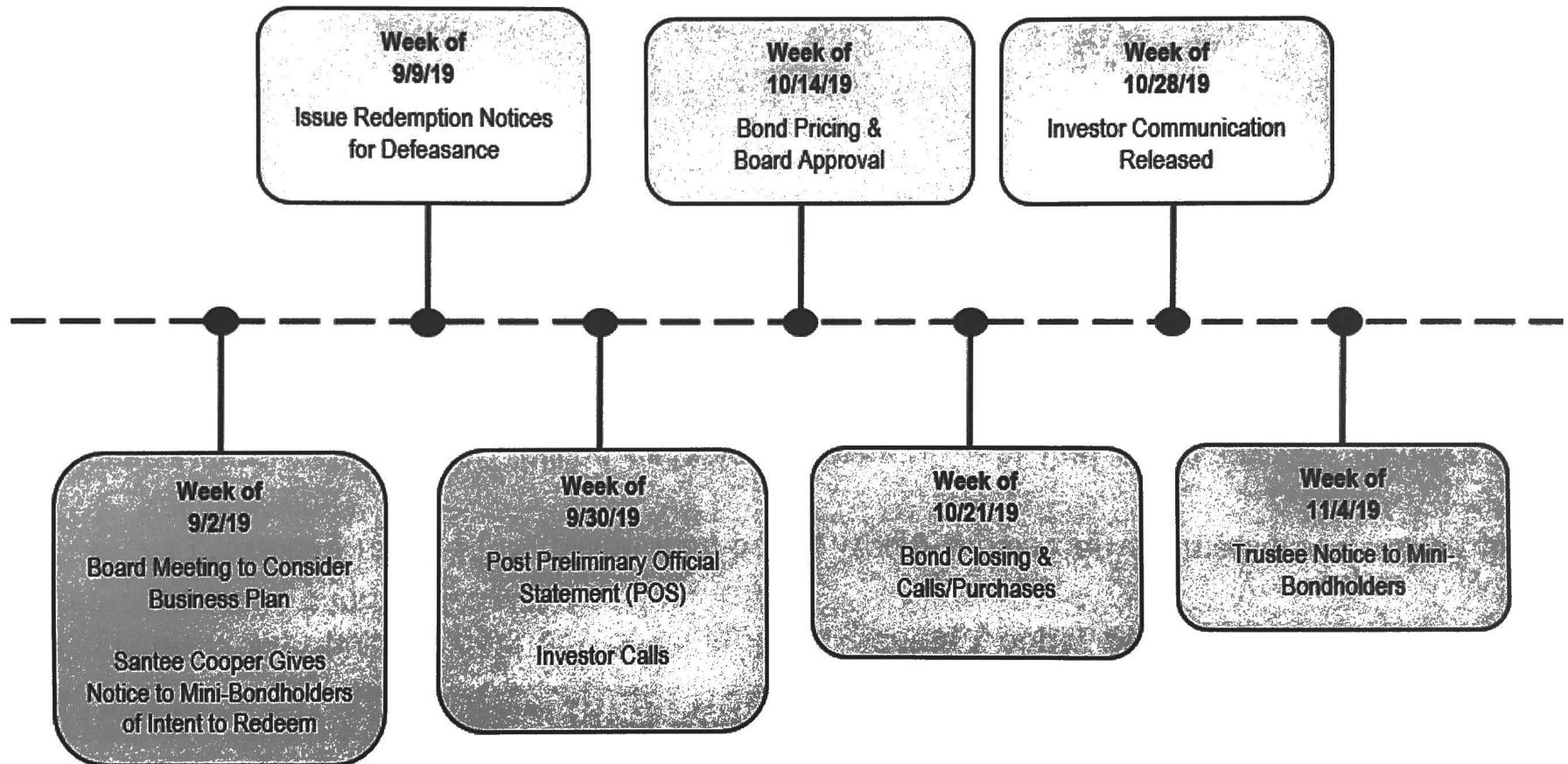


1. Potential savings assumes refunding at future call dates and benchmark MMD rate equal to there historical 3-year average. Savings are included in the financial projections.

2. Benefits of securitization not included in financial projections.

3. Excludes debt currently projected to be paid-off per the debt reduction program.

# 2019 Transaction Timeline



# 2019 Transaction Overview



## Transaction Goals

- Significantly reduce nuclear debt<sup>1</sup>
- Optimize cash
- Create savings by closing Mini-Bond Program
- Preserve financial flexibility

## Cash Defeasance

### SOURCES:

- \$350 million – Internal cash:
 

Toshiba Funds	\$144 million
Debt Reduction Fund	\$112 million
CIF & Revenues	\$50 million
Other Internal Funds	\$44 million

### USES:

- Internal cash will defease nuclear debt
  - \$290 million Revenue Bonds
  - \$60 million of Mini-Bonds

## Considerations

- The transaction will reduce available cash requiring greater reliance on bank facilities for capital projects
- No impact to the current credit rating is expected to result from the reduction in Days Cash on Hand and Days Liquidity on Hand used for debt pay down<sup>3</sup>

## Limited Purchase Offering (LPO)

### SOURCES:

- \$175 million – Limited Public Offering (LPO)<sup>2</sup>

### USES:

- LPO proceeds will be used to refund the remaining Mini-Bonds; resulting in closure of the program

## Post Transaction Metrics

Metric	Historical Target	After Transaction (2019 YE)
Days Cash on Hand	155	131
Days Liquidity on Hand	250	210

1. \$500 million in internal cash will be set aside for nuclear debt reduction. \$350 million transaction executed in 2019, with \$150 million transaction in 2020.  
 2. Potential for upsizing based on market conditions  
 3. Based on Moody's financial metrics scorecard

# Revenue Requirements (2020-2039) santee cooper®

## Annual Growth in Revenue Requirements (c/kWh)

	<u>2020-2024</u>	<u>2024-2039</u>
Fuel and Purchased Power	-0.6%	2.2% <sup>1</sup>
Remaining Revenue Requirements (NFOM, Debt Service, CIF, Other) <sup>2</sup>	-0.3%	0.7%
<b>Growth in Total Revenue Requirements</b>	<b>-0.4%</b>	<b>1.3%</b>

<b>Annual Inflation Rate<sup>3</sup></b>	<b>2.1%</b>	<b>2.1%</b>
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- Projected revenue requirements are 10% below 'Business as Usual' scenario (20-year average)
- In real term, prices projected to decline 1.1% annually over 20 years

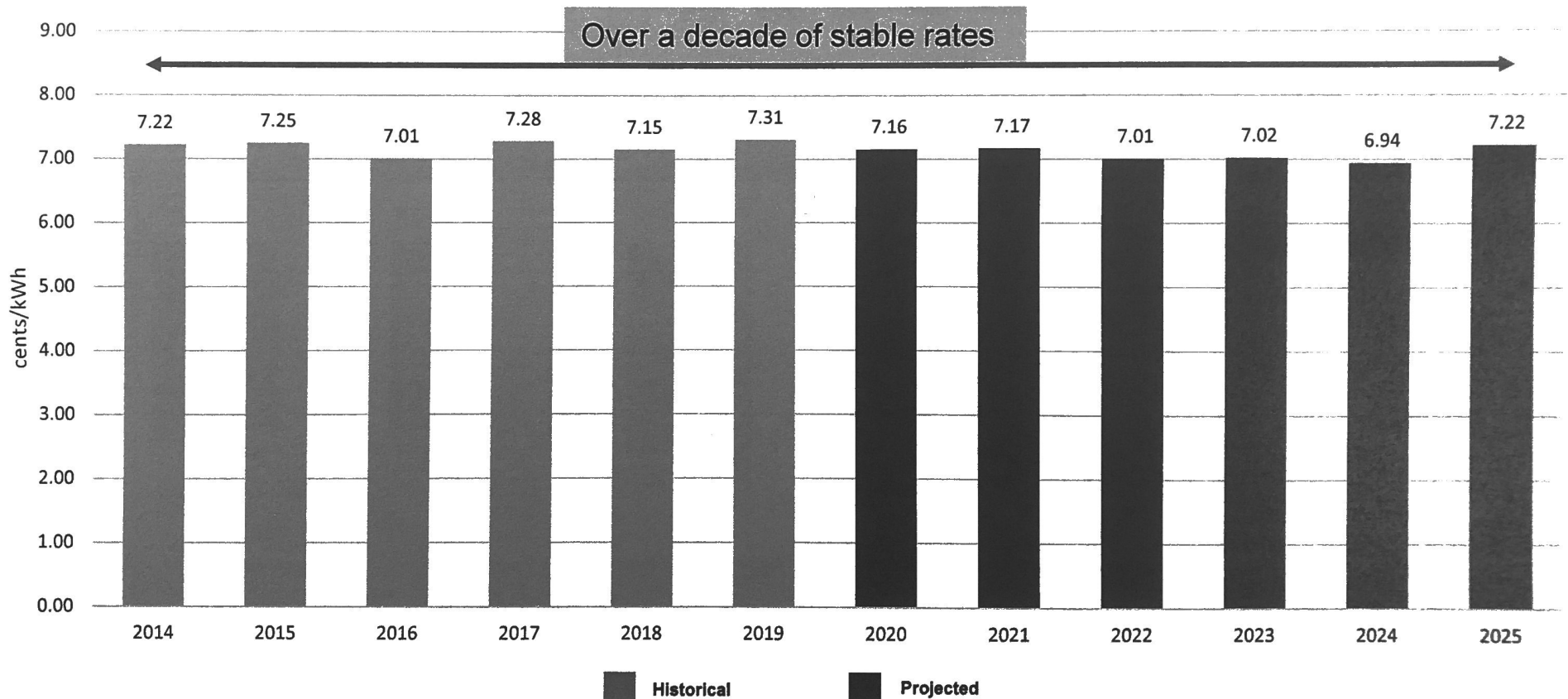
1. Based on long-term fuel price escalation assumption. Fuel costs are passed through to customers.  
 2. "Other" includes credits to revenue requirements from miscellaneous revenues.  
 3. Assumed inflation rate based on 20-year historical CPI.

# Stable Prices to Central



**We project continued price stability**

## Central Cost of Service<sup>1</sup>



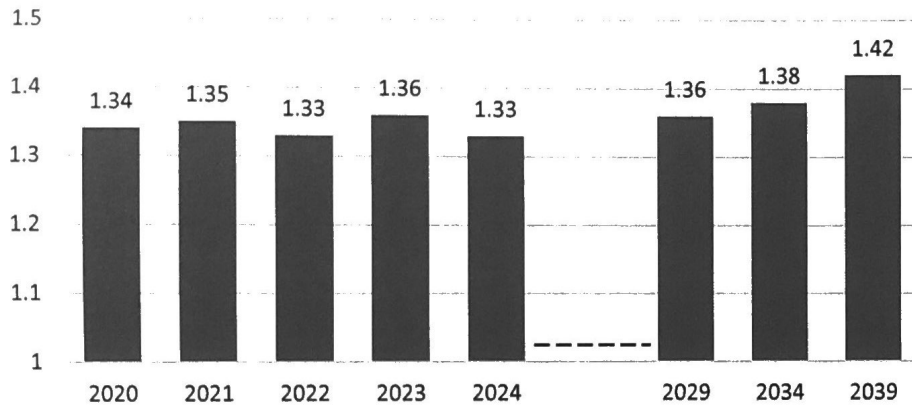
1. 2019 projection based on 2019 Budget. 2020 forward based on 2020 pre-budget financial forecast.



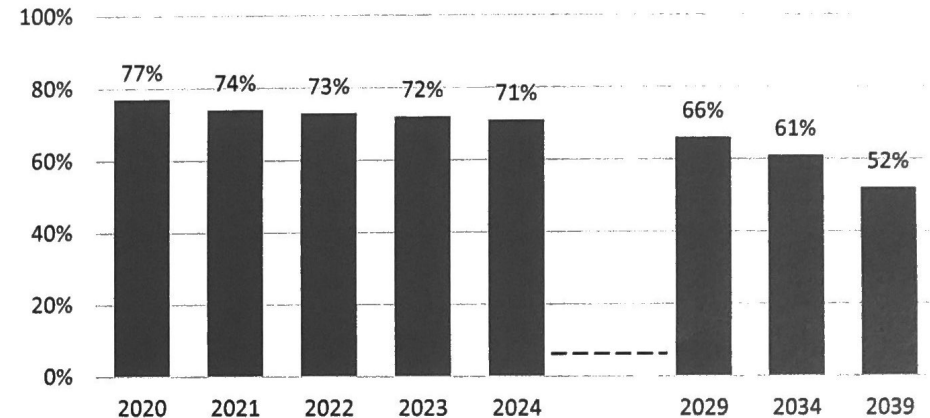
# Projected Financial Metrics



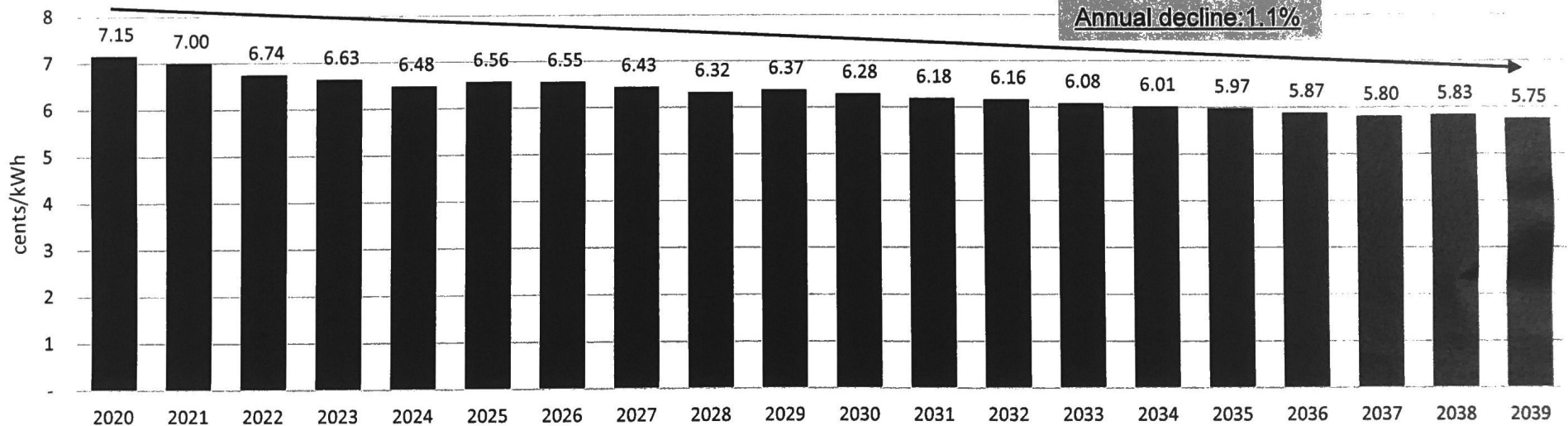
## Debt Service Coverage



## Debt to Capitalization



## "Real" Prices to Customers<sup>1</sup>



1. Assumes inflation rate of 2.1% based on 20-year historical CPI.



# CONCLUSION

# ACT 95 Timeline (H4287)



## ➤ **August 23 going forward**

- No restrictions on communications to any party related to normal course of ongoing operations

## ➤ **September 9 going forward**

- Santee Cooper releases 2019 Business Forecast
- No restrictions on communications to customers, legislators, third parties, or public about normal operations including Santee Cooper Business Forecast

## ➤ **September 9 to November 15**

- Santee Cooper develops reform plan
- Bidders cannot disclose DOA process work product to anyone

## ➤ **November 15 to January 15**

- Bids submitted to DOA
- No communications related to DOA process are permitted with legislators, the Governor, respective staffs, customers, third parties, public, or DOA and advisors unless prompted by DOA

## ➤ **January 15 going forward**

- DOA submits report to S.C. Legislature
- No lobbying permitted
- Bidders, including Santee Cooper, may not advocate for or against a DOA recommendation

# In Summary



- A leaner, greener resource mix
- A 5-year price freeze; falling real prices
- Substantial debt reduction
- Enhancement to customer service
- Economic development, water management, etc. remain priority

**A new and better path forward**